

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

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SUBJECT: VISITING ECONOMISTS OFFER GROC ADVICE

1. SUMMARY: SIX OVERSEAS CHINESE ECONOMISTS WHO CAME TO ATTEND ECONOMIC SEMINAR ASKED BY GROC TO OFFER ADVISE ON CURRENT ECONOMIC POLICIES. GROUP HAS MET WITH 5 MAN ECONOMIC POLICY COMMITTEE AND PREMIER WILL REVIEW THEIR RECOMMENDATIONS. KEY PROPOSALS ARE ESTABLISHMENT OF MONEY MARKET WITH MARKET, NOTGOVERNMENT, DETERMINING INTEREST RATES, AND FLOATING OF NT DOLLAR EXCHANGE RATE. BECAUSE OF PRACTICAL PROBLEMS INVOLVED AND OPPOSITION OF BUSINESS COMMUNITY, VOICED TO AND THROUGH MOEA AND MINISTRY OF FINANCE, IT SEEMS UNLIKELY NT DOLLAR WILL BE FLOATED AT PRESENT. END SUMMARY.

2. ACADEMIA SINICA, SENIOR ACADEMIC RESEARCH ORGANIZATION OF ROC, CONVENED SEMINAR JULY 12 AND 13 TO CONSIDER ECONOMIC PROBLEMS OF ROC. IN ADDITION TO MORE THAN 180 DOMESTIC ECONOMIC OFFICIALS AND PROFESSORS, SIX LEADING "ACADEMICIANS" WERE INVITED TO PRESENT PAPERS AND SERVE AS DISCUSSION LEADERS. FIVE OF THE SIX WERE OVERSEAS CHINESE LIVING IN U.S.

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3. SUBJECT MATTER OF SEMINAR INCLUDED FOREIGN TRADE, INFLATION AND MONETARY POLICY. TWO TOPICS OF GREATEST INTEREST WERE POSSIBLE ESTABLISHMENT OF VIABLE MONEY MARKET WITH FREELY FLUCTUATING INTEREST RATES, AND PROPOSAL OF CHIANG SHUO- CHIEH OF CORNELL TO INTRODUCE A FLOATING EXCHANGE RATE FOR NEW TAIWAN DOLLAR. CHIANG MADE SAME SUGGESTION ABOUT A YEAR AGO.

4. SIX EXPERTS WERE KEPT ON AFTER SEMINAR BY GROC, EACH ONE SERVING AS CONSULTANT TO APPROPRIATE GOVERNMENT AGENCY. GROUP HAS BEEN ASKED PREPARE REPORT MAKING RECOMMENDATIONS ON ECONOMIC POLICY. THEY MET WITH FIVE MAN AD UC COMMITTEE ON ECONOMIC POLICY CHAIRED BY GOVERNOR YU KUO-HWA OF CBC JULY 30 TO PRESENT REPORT. GROUP'S IDEAS WILL BE PRESENTED TO PREMIER SHORTLY.

5. ON SUBJECT OF EXCHANGE RATE, CBC DEPUTY GOVERNOR LEE TOLD EMBOFF BANK WAS OPEN MINDED AND WOULD STUDY IDEA CAREFULLY. HOWEVER, HE SAID IT WOULD BE VERY DIFFICULT TO IMPLEMENT SUCH A SYSTEM. MINISTER OF FINANCE K.T.LI GAVE IMPRESSION TO ECON COUNS AND VISITING ROC COUNTRY DIRECTOR SULLIVAN THAT HE WAS STRONGLY OPPOSED TO SUCH A MOVE. VICE CHAIRMAN SUN OF EPC DISCUSSED IDEUXWITH EMBOFF AND SEEMED TO COME DOWN AGAINST IT ON GROUNDS MANY PRACTICAL PROBLEMS INVOLVED AND INAPPROPRIATENESS FOR RELATIVELY SMALL ECONOMY WHICH COULD NOT TOLERATE SMALL CHANGES IN EXCHANGE RATES IN SAME MANNER LARGER ECONOMIES COULD. ACCORDING TO ROBERT CHIEN, THE OTHER CBC DEPUTY GOVERNOR, MOEA HELD MEETING JULY 27 AND DECIDED TO OPPOSE IDEA, PARTLY ON GROUNDS FORWARD PRUCHASE OF FOREIGN EXCHANGE TOO SOPHISTICATED FOR ROC BUSINESSMEM -, \$ ALSO BECAUSE BUSINESS COMMUNITY IS STRONGLY AGAINST CHANGE.

6. MONEY MARKET WITH SUPPLY AND EMAND SETTING INTEREST RATES PART AND PARCEL OF FLOATING EXCHANGE RATE PLAN AND THESE TWO PROPOSALS WILL PROBABLY STAND OR FALL TOGETHER. IF INTEREST RATES WERE SET FREE RIGHT NOW, THEY MIGHT LIMITED OFFICIAL USE

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EVEN GO UP AS MONEY IS STILL IN SHORT SUPPLY.

7. COMMENT: THIS SEMINAR AND ASSOCIATED DISCUSSIONS LATEST IN LONG SERIES CONSULTATION OF GROC WITH OVERSEAS EXPERTS. SOME OF THESE EXPERTS, ESPECIALLY T.C. LIU AND S.C. CHIANG, HAVE CLOSE PERSONAL TIES WITH GROC LEADERS INCLUDING PREMIER, AND THUS MAY HAVE MORE INFLUENCE O UPOLICY THAN IS READILY APPARENT. IN ANY CASE, HAVING OUTSIDERS LOOKING

OVER SHOULDERS OF GOVERNMENT BUREAUCRATS TO RE-EXAMINE
BASIC ASSUMPTIONS AND AIR NEW IDEAS AND APPROACHES TO
SOLVE PROBLEMS MUST HAVE HEALTHY EFFECT. NEVERTHELESS,

IT SEEMS UNLIKELY ROC WOULD ADOPT FLOATING EXCHANGE RATE
AT PRESENT, NOT ONLY BECAUSE OF PROBLEMS MENTIONED ABOVE,
BUT ALSO BECAUSE OF POSSIBLE POLITICAL OVERTONES OF
CUTTING NT LOOSE FROM US DOLLAR; COMPLEXITIES OF AND
NEED TO CONTINUE FOREIGN EXCHANGE CONTROLS; AND DIFFI-
CULTIES IN ESTABLISHING MECHANISM FOR FORWARD PURCHASE
OF FOREIGN EXCHANGE, ESPECIALLY IN COUNTRY WHERE ENTER-
PRISES SMALL BY WORLD STANDARDS, TRADITIONALLY UNDER-
CAPITALIZED AND SHORT OF WORKING CAPITAL. FINALLY,
NT DOLLAR IS FLOATING ALREADY, WITH THE US DOLLAR,
VIS-A-VIS MAJOR CURRENCIES OF WORLD AND TRAUMA OF
SETTING NT DOLLAR ON ITS OWN IN RATHER UNFRIENDLY
POLITICAL CLIMATE NOW EXISTING TOO MUCH TO EXPECT.
EMBASSY ATTEMPTING TO OBTAIN COPY OF GROUP'S RECOMMENDA-
TIONS TO GROG AND WILL FORWARD WITH COMMENT IF SUCCESSFUL.
UNGER

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